

## I. Purpose

Tokyo Stock Exchange, Inc. (TSE) has continued to implement various initiatives toward stable market operations. For instance, in response to the arrowhead system glitch that occurred in October 2018, TSE has conducted an overall inspection of the order management systems and data transmission management systems at Low Latency Traders and securities companies that accept orders for Low Latency Trading. Also, since March 2019, TSE has gradually introduced storm control functions to protect its overall network from unexpected traffic storms. Meanwhile, with the advent of automated trading and Low Latency Trading in recent years, it has become increasingly important for trading participants to conduct appropriate order management. As such, with the aim of further improving the stability and reliability of the market, TSE has referenced the relevant rules and regulations of other countries and will implement revisions as indicated below so as to further improve order management systems at trading participants.

Specifically, TSE will require trading participants to have direct and exclusive risk management control over customer orders. Moreover, TSE will require trading participants to introduce functions to prevent the placement of new orders in the event of a system malfunction, etc., and clarify in its guidelines the prohibition of order management methods that involve the deliberate placement of erroneous orders, etc.

## II. Outline

Item	Description	Remarks
1. Requirement for Direct and Exclusive Risk Management Control over Customer Order Restriction and Measures	<ul style="list-style-type: none"> <li>• Trading participants must have direct and exclusive risk management control over customer orders with regard to restriction and measures.</li> <li>• The term "direct and exclusive" refers to a situation where only the trading participant can manage the restrictions or measures on customer orders with regard to the management of such orders (e.g., setting and modifying risk parameters, etc.) and its customers cannot alter such settings, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Examples of specific management methods would be as follows:               <ul style="list-style-type: none"> <li>- Use of a system independently developed by the trading participant and located in a place physically separated from the customer system.</li> <li>- Use of a risk check solution provided by an independent third-party vendor, etc. (limited to the case where the trading participant has direct and exclusive management authority over its use)</li> </ul> </li> <li>• In cases where software for risk checks required by the trading participant is installed on a system managed by the customer, and the trading participant confirms that the settings and parameters are not changed, such an arrangement is considered as indirect management, not direct and exclusive management. (Cases such as where the customer has entered into a contract, etc. in advance not to change the settings and parameters are also considered as indirect management.)</li> </ul>

Item	Description	Remarks
2. Requirement to Introduce Functions to Prevent Order Placement	<ul style="list-style-type: none"> <li>If an irregular order is unexpectedly placed, etc. due to a situation such as an order placement system malfunction (including customer-side system malfunction), the trading participant must immediately implement measures to prevent the placement of new orders to TSE.</li> </ul>	<ul style="list-style-type: none"> <li>Securities companies that accept orders for Low Latency Trading will continue to be required to implement measures based on the checklist as requested in the notice entitled "Inspection of Low-Latency Trading Management" (TSE Equity Strategic Planning No.300; Nov. 26, 2018)</li> </ul>
3. Prohibition of Order Management Methods That Involve Deliberate Placement of Erroneous Orders, etc.	<ul style="list-style-type: none"> <li>TSE will clarify in its guidelines that trading participants must appropriately handle, in their systems, orders that breach the order limits, etc. they specified.</li> </ul>	<ul style="list-style-type: none"> <li>For example, trading participants will be prohibited from adopting order management methods that employ techniques that allow the overwriting of parameters, etc. to place orders that will obviously be returned as errors by the TSE system.</li> <li>Prohibition of such order management methods will be clearly stipulated in the Order Management Guidelines.</li> </ul>

### III. Implementation Date (scheduled)

These revisions will be implemented in January 2021.